

Message Text

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TO SECSTATE WASHDC 2710

INFO AMCONSUL ASMARA

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E.O.11652: N/A

TAGS: EGEN ECON ET

SUBJ: ETHIOPIAN SOCIALISM VERSUS ETHIOPIAN ECONOMIC REALITIES

SUMMARY: AS GOE POLICY MAKERS WORK ON THEIR NEXT ECONOMIC STEPS TO MAKE CONCRETE THEIR ANNOUNCED PHILOSOPHY OF "ETHIOPIAN SOCIALISM", THEY ARE BEING FORCED TO COPE WITH THE DIFFICULT REALITIES OF ETHIOPIA'S ECONOMIC STRUCTURE AND SYSTEM. BECAUSE OF ITS PRIMITIVE STATE OF DEVELOPMENT, THE ETHIOPIAN ECONOMY DOES NOT HAVE MANY AREAS WHICH ARE SUSCEPTIBLE TO A CLASSIC SOCIALIST APPROACH, AND THOSE WHICH DO LEND THEMSELVES TO SUCH TREATMENT ARE A SMALL PROPORTION OF TOTAL ECONOMIC ACTIVITY AND ALREADY (IN ALMOST ALL CASES) HAVE A SUBSTANTIAL DEGREE OF GOVERNMENT INVOLVEMENT. MOREOVER, WHAT THE GOVERNMENT DOES NOT OWN BELONGS ALMOST
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ENTIRELY TO CITIZENS OF POWERFUL FOREIGN COUNTRIES WHOSE

FRIENDSHIP, SUPPORT AND ASSISTANCE ETHIOPIA NEEDS AND DESIRES (ALTHOUGH THERE ARE EXPATRIATE INTERESTS WHO HAVE ANTAGONIZED THE CURRENT REGIME BY THEIR BEHAVIOR UNDER THE OLD REGIME AND WHO HAVE LITTLE EFFECTIVE POWER OF THEIR OWN TO BRING TO BEAR - EXCEPT POSSIBLY THEIR MANAGEMENT ABILITY AND CAPITAL). THE BALANCE OF THE ECONOMY - THE SUBSISTANCE SECTOR - CONTAINS THE VAST BULK OF THE ETHIOPIAN POPULATION, AND MEMBERS OF THIS GROUP WILL PRESUMABLY NOT TAKE KINDLY TO A GOVERNMENT WHICH DISPOSSESSES THEM OF THEIR PROPERTY EVEN IF IT IS DONE IN THE NAME OF "ETHIOPIAN SOCIALISM". THE GOVERNMENT MUST ALSO CONSIDER THE CONSTRAINTS ITS LIMITED MANAGERIAL AND FINANCIAL RESOURCES PLACE ON ITS NATIONALIZATION ASPIRATIONS, ASSUMING IT INTENDS TO PROVIDE PROMPT, ADEQUATE AND EFFECTIVE COMPENSATION TO PREVIOUS OWNERS WHETHER FOREIGN OR DOMESTIC. BEARING THESE CONSIDERATIONS IN MIND THERE IS HOPE THAT "ETHIOPIAN SOCIALISM" MAY PROVE TO BE FAR FROM THOROUGHGOING AND COMPREHENSIVE BUT, IN THE END, MAY MERELY HAVE RESULTED IN INCREASED GOVERNMENT PARTICIPATION IN THE ETHIOPIAN ECONOMY, WITH A MIXED ECONOMY STILL THE ORDER OF THE DAY. IN FACT, AN EXTREME APPROACH COULD ONLY SIGNIFY A LACK OF RATIONALITY AND COMMON SENSE ON THE PART OF CURRENT GOVERNMENT LEADERSHIP WHICH MIGHT SERIOUSLY JEOPARDIZE ETHIOPIA'S HOPE FOR OUTSIDE ASSISTANCE AND SUPPORT. END SUMMARY.

1. THE ETHIOPIAN ECONOMY, BECAUSE OF ITS PRIMITIVE STATE OF DEVELOPMENT, DOW NOT LEND ITSELF TO A CLASSIC SOCIALIST ARRANGEMENT. THE MODERNIZED PART OF THE ECONOMY, WHICH IS MOST SUSCEPTIBLE TO STATE OWNERSHIP, DOES NOT CONSTITUTE MORE THAN 50 PERCENT OF ALL ECONOMIC ACTIVITY. THE FORMER GOVERNMENT WAS ALREADY HEAVILY ENGAGED IN MOST OF THESE SECTORS - ELECTRIC POWER GENERATION, TRANSPORTATION, COMMUNICATIONS, LARGE SCALE (FOR ETHIOPIA) MANUFACTURING, TOURISM, MEDICAL SERVICES - WHICH MAKE IT UP. ENTERPRISES IN THESE SECTORS ARE OWNED OUTRIGHT BY THE GOVERNMENT OR THE GOVERNMENT GENERALLY HOLDS A MAJOR SHARE OF THE EQUITY OF THESE CORPORATIONS. THE BALANCE OF OWNERSHIP BELONGS ALMOST EXCLUSIVELY TO FOREIGNERS, ESPECIALLY IN THE MANUFACTURING (20 PERCENT FOREIGN EQUITY) AND POWER (25 PERCENT FOREIGN EQUITY) SECTORS.

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2. THOSE SECTORS OF THE MODERNIZED PART OF THE ECONOMY IN WHICH THE GOVERNMENT DOES NOT PLAY A MAJOR ROLE ARE PREDOMINANTLY CONTROLLED BY FOREIGNERS, A CIRCUMSTANCE WHICH COULD COMPLICATE A NATIONALIZATION PRORAM BECAUSE OF THE EFFECTS SUCH AN APPROACH WOULD HAVE ON ETHIOPIA'S RELATIONS WITH OTHER COUNTRIES. IMPORT-EXPORT TRADE (90 PERCENT EXPATRIATE OWNED), RETAIL AND WHOLESALE TRADE

(70 PERCENT EXPATRIATE OWNED), PETROLEUM DISTRIBUTION (100 PERCENT EXPATRIATE OWNED), CONSTRUCTION (70 PERCENT EXPATRIATE OWNED) AND COMMERCIAL FARMING (50 PERCENT EXPATRIATE OWNED) COMPRISE ALMOST ALL OF THIS CATEGORY OF ECONOMIC ACTIVITY.

3. IN THE NON-MODERNIZED OR SUBSISTENCE PART OF THE ECONOMY, ECONOMIC ACTIVITY IS HIGHLY DECENTRALIZED AND ALMOST COMPLETELY IN THE HANDS OF ETHIOPIANS. INDIVIDUALS ENGAGED IN SMALL SCALE OR COTTAGE INDUSTRY, WHICH CONSTITUTES ROUGHLY 5 PERCENT OF GNP, AND SMALL FARMERS (85 PERCENT OF THE POPULATION) MAKE UP THIS PORTION OF THE ECONOMY.

4. GIVEN THIS KIND OF ECONOMIC PROFILE, THE IMPLEMENTATION OF "ETHIOPIAN SOCIALISM", ASSUMING THIS ENTAILS A SUBSTANTIAL INCREASE IN STATE OWNERSHIP, WILL BE VERY DIFFICULT INDEED. POLICY PLANNERS, AS THEY CONSIDER THEIR NEXT STEPS, HAVE TO TAKE INTO ACCOUNT FOUR MAJOR CONSIDERATIONS CUM CONSTRAINTS:

- A. THE VIEWS OF FOREIGN EQUITY HOLDERS AND OF THEIR HOME COUNTRIES;
- B. THE VIEWS OF ETHIOPIAN CITIZENS WHO WILL BE AFFECTED;
- C. THE AMOUNT OF INDIGENOUS MANAGEMENT SKILLS AVAILABLE TO THE GOVERNMENT TO RUN ENTERPRISES TAKEN OVER BY THE GOVERNMENT;
- D. THE AMOUNT OF FINANCIAL RESOURCES AVAILABLE TO THE GOVERNMENT FOR COMPENSATION.

5. WITH RESPECT TO THE TREATMENT OF THE FOREIGN COMMUNITY, THE GOVERNMENT WILL PROBABLY DISTINGUISH BETWEEN THOSE FOREIGN NATIONALS WHO ARE CITIZENS OF COUNTRIES OF CONSIDERABLE IMPORTANCE TO ETHIOPIA (E.G., US, UK, JAPAN, GERMANY, FRANCE, ITALY) AND THOSE WHOSE MOTHER COUNTRIES DO NOT PLAY AN

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IMPORTANT ROLE IN ETHIOPIAN FOREIGN POLICY (E.G., GREEKS, ARMENIANS, INDIANS, YEMENIS). TO THE EXTENT THAT THE CURRENT GOVERNMENT WANTS CONTINUED ECONOMIC AND MILITARY ASSISTANCE AND NEW PRIVATE FOREIGN INVESTMENT, IT WILL PROBABLY PROCEED WITH CARE IN DEALING WITH THE HOLDINGS OF THE FORMER GROUP. THE TEST CASES HERE WILL BE THE PETROLEUM DISTRIBUTION COMPANIES (MOBIL-US, AGIP-ITALIAN, TOTAL-FRENCH, SHELL-UK/DUTCH), THE LARGE COMMERCIAL FARMS (DUTCH, UK, AND ITALIAN) AND FRENCH INTERESTS (49 PERCENT OF THE EQUITY) IN THE FRANCO-ETHIOPIAN RAILROAD (ALTHOUGH THIS CASE IS COMPLICATED BY THE FACT THAT THE AGREEMENTS COVERING FRENCH OWNERSHIP IN THE RAILROAD ALSO COVER ETHIOPIAN ACCESS TO DJIBOUTI). ON THE OTHER HAND IT IS LIKELY THAT THE FOREIGN OWNED (ITALIAN) ELECTRIC POWER GENERATING COMPANIES IN ASMAR WILL BE NATIONALIZED REGARDLESS OF FOREIGN REACTION, SINCE

THERE IS AMPLE PRECEDENT FOR PUBLIC OWNERSHIP OF POWER COMPANIES.

6. REGARDING THE LATTER GROUP, THE GOVERNMENT WILL PROBABLY MAKE A FURTHER DISTINCTION BETWEEN THOSE FOREIGN NATIONALS WHO HAVE BEEN "GOOD CITIZENS" WHILE RESIDENT IN ETHIOPIA

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AND THOSE WHO EXPLOITED THEIR FAVORED POSITION UNDER THE OLD REGIME. THE DESIRE TO RID ETHIOPIA OF THESE "EXPLOITATIVE" FOREIGNERS SHOULD BE TEMPERED, HOWEVER, BY THE REALIZATION THAT THEY PROVIDE MANAGEMENT AND OTHER SERVICES WHICH COULD NOT BE EASILY REPLACED, AND THAT THEY ARE A SOURCE OF CAPITAL, SOMETHING WHICH ETHIOPIANS DO NOT HAVE IN ABUNDANCE IN EITHER THE PUBLIC OR PRIVATE SECTORS. THE GENERAL QUESTION OF COMPENSATION MUST ALSO BE ON THE MINDS OF GOE DECISION MAKERS AS THEY CONTEMPLATE ALL THE DEMANDS ON SCARCE GOE FINANCIAL

RESOURCES (I.E., INCREASED MILITARY PROCUREMENT, DEVELOPMENT THROUGH COOPERATION CAMPAIGN, ECONOMIC DEVELOPMENT PROGRAM). THIS, OF COURSE, ASSUMES THAT THEY DESIRE TO MAINTAIN TOLERABLE RELATIONS WITH FRIENDLY FOREIGN COUNTRIES WHICH ARE PROVIDING ECONOMIC SUPPORT AND RECOGNIZE THAT THESE RELATIONS DEPEND, IN PART, ON HOW THE CITIZENS OF THESE COUNTRIES ARE COMPENSATED LIMITED OFFICIAL USE

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IF AND WHEN THEIR HOLDINGS ARE NATIONALIZED.

7. NATIONALIZATION OF THOSE AREAS WHICH INVOLVE THE BULK OF THE ETHIOPIAN POPULATION, E.G., LAND AND SMALL SCALE INDUSTRY, WOULD INVOLVE GREAT RISKS TO THE STABILITY OF THE CURRENT REGIME. OVER 50 PERCENT OF THE AFARMERS IN INDIVIDUAL LAND TENURE AREAS OWN SOME LAND (45 PERCENT OWNER/OPERATOR, 9 PERCENT PART OWNER, PART RENTER) WHILE 90 PERCENT OF THE RURAL POPULATION IN COMMUNAL TENURE AREAS ARE LANDHOLDERS. NATIONALIZING THESE HOLDINGS WOULD ALMOST CERTAINLY BE MET WITH MASSIVE (AND LIKELY VIOLENT) RESISTANCE IN THE COUNTRYSIDE. MOREOVER, TO THE EXTENT STATE FARMS AND COOPERATIVES ARE SUBSTITUTED FOR INDIVIDUAL FARM OPERATIONS, THE REQUIRED MANAGEMENT SKILLS WILL BE IN SHORT SUPPLY OR NOT AVAILABLE. THE SAME DIFFICULTIES ARE LIKELY IF SMALL SCALE (COTTAGE) INDUSTRIES ARE NATIONALIZED.

8. BEARING THESE CIRCUMSTANCES IN MIND THERE IS HOPE THAT "ETHIOPIAN SOCIALISM" WILL ONLY RESULT IN AN INCREASE IN GOVERNMENT PARTICIPATION IN AN ESSENTIALLY MIXED ECONOMY. CERTAIN SECTORS SUCH AS ELECTRIC POWER GENERATION, AND POSSIBLY PETROLEUM DISTRIBUTION AND TRANSPORTATION, MAY BE ENTIRELY TAKEN OVER BY THE GOVERNMENT. MOST SECTORS, HOWEVER, WILL PROBABLY INVOLVE BOTH PUBLIC AND PRIVATE ENTERPRISES. FOR EXAMPLE, A STATE TRADING CORPORATION WILL ALMOST CERTAINLY BE ESTABLISHED FOR BOTH IMPORT-EXPORT TRADE (INCLUDING COFFEE) AND WHOLESALE AND RETAIL TRADE, BUT PRIVATE BUSINESSES WILL BE ALLOWED TO CONTINUE. THE GOVERNMENT IS ALSO LIKELY TO INCREASE ITS ACTIVITY IN COMMERCIAL FOARMING, AND INITIATE PUBLIC ENTERPRISES IN CONSTRUCTION AND TRUCKING (ASSUMING THE TRUCKING INDUSTRY IS NOT NATIONALIZED).

9. IT IS OF COURSE POSSIBLE THAT ETHIOPIAN POLICY MAKERS WILL NOT BE DETERRED BY IMPEDIMENTS THEY FACE IN IMPLEMENTING A SOCIALIST ECONOMIC PROGRAM, OR THAT THE DYNAMICS OF THE POLITICAL SITUATION WILL GAIN MOMENTUM AND FORCE POLICY MAKERS TO EXTREME MEASURES REGARDING THE ORGANIZATION OF THE ECONOMY. SHOULD THIS BE THE CASE, ETHIOPIA'S CLAIM ON OUTSIDE ASSISTANCE AND SUPPORT, EVEN IF ETHIOPIA IS ONE OF THE 25 LEAST DEVELOPED COUNTRIES, WILL BE CALLED INTO QUESTION ON BOTH DEVELOPMENTAL AND POLITICAL LIMITED OFFICIAL USE

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